



**Financial Statements and Single Audit Reports
December 31, 2005 and 2004**

(Together with Independent Auditors' Report)



COMMUNITY HEALTH CENTERS, INC.
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Our audits were performed for the purpose of forming an opinion on the basic financial statements of **Community Health Centers, Inc.** taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Tanner LC

Salt Lake City, Utah
June 5, 2006



COMMUNITY HEALTH CENTERS, INC.
Statements of Activities

Years Ended December 31,

	2005	2004
Unrestricted net assets:		
Support and revenue:		
Grants and contracts	\$ 6,011,989	\$ 6,411,686
Patient revenue, net of adjustments of \$7,014,170 and \$7,084,493	5,344,445	5,780,539
Contributions	5,687,303	4,055,089
Interest and other	52,239	34,157
	<hr/>	<hr/>
Total unrestricted support and revenue	17,095,976	16,281,471
	<hr/>	<hr/>
Expenses:		
Program services:		
Community health services	10,621,325	11,072,467
Farmworker health services	281,314	313,411
Ancillary programs	4,185,630	2,739,839
Supporting Services:		
Management and general	2,200,981	1,957,149
Fundraising	30,962	21,100
	<hr/>	<hr/>
Total expenses	17,320,212	16,103,966
	<hr/>	<hr/>
Increase (decrease) in unrestricted net assets from operations	(224,236)	177,505
	<hr/>	<hr/>
Other revenue:		
Medicaid / Medicare cost settlements	218,471	917,362
	<hr/>	<hr/>
Increase (decrease) in unrestricted net assets	(5,765)	1,094,867
	<hr/>	<hr/>
Net assets, beginning of year	3,573,944	2,479,077
	<hr/>	<hr/>
Net assets, end of year	\$ 3,568,179	\$ 3,573,944
	<hr/>	<hr/>

COMMUNITY HEALTH CENTERS, INC.
Statement of Functional Expenses

Year Ended December 31, 2005

	Program Services			Supporting Services		
	Community Health Services	Farmworker Health Services	Ancillary Programs	Management and General	Fundraising	Total
Salaries and wages	\$ 4,555,260	\$ 103,040	\$ 383,886	\$ 918,242	\$ 9,711	\$ 5,970,139
Employee payroll benefits and taxes	1,446,750	32,725	121,922	292,068	3,084	1,896,549
Total salaries, wages and related expenses	6,002,010	135,765	505,808	1,210,310	12,795	7,866,688
Professional fees and contract service payments	1,566,151	58,154	29,307	537,606	16,667	2,207,885
Supplies	687,618	26,847	3,835	25,457	350	744,107
Travel and training	42,837	6,834	6,419	95,878	-	151,968
Insurance	-	1,755	-	20,902	-	22,657
Telephone and communications	137,546	5,027	8,707	40,432	-	191,712
Facility rental and utilities	399,515	15,684	19,200	48,514	-	482,913
Postage and shipping	9,943	57	2,824	72,638	150	85,612
Printing	6,070	708	1,567	1,989	1,000	11,334
Other	142,911	6,405	6,210	67,184	-	222,710
In-kind and donated services/supplies	1,489,976	18,654	3,588,919	52	-	5,097,601
Total expenses before depreciation, amortization and interest expense	10,484,577	275,890	4,172,796	2,120,962	30,962	17,085,187
Depreciation and amortization	136,748	5,424	12,834	78,729	-	233,735
Interest expense	-	-	-	1,290	-	1,290
	\$ 10,621,325	\$ 281,314	\$ 4,185,630	\$ 2,200,981	\$ 30,962	\$ 17,320,212

COMMUNITY HEALTH CENTERS, INC.
Statement of Functional Expenses

Year Ended December 31, 2004

	Program Services			Supporting Services		
	Community Health Services	Farmworker Health Services	Ancillary Programs	Management and General	Fundraising	Total
Salaries and wages	\$ 4,640,493	\$ 123,516	\$ 383,886	\$ 864,290	\$ 10,272	\$ 6,022,457
Employee payroll benefits and taxes	1,312,559	35,876	116,329	282,401	2,979	1,750,144
Total salaries, wages and related expenses	5,953,052	159,392	500,215	1,146,691	13,251	7,772,601
Professional fees and contract service payments	1,493,980	38,849	22,015	384,353	5,070	1,944,267
Supplies	816,137	47,883	3,835	14,534	350	882,739
Travel and training	26,631	10,048	6,419	45,909	-	89,007
Insurance	12,320	1,755	-	24,293	-	38,368
Telephone and communications	148,216	6,745	8,707	37,835	-	201,503
Facility rental and utilities	428,590	16,615	19,200	50,121	-	514,526
Postage and shipping	3,751	26	2,824	37,823	150	44,574
Printing	34,164	1,844	8,859	11,136	2,279	58,282
Other	243,320	5,765	6,210	87,926	-	343,221
In-kind and donated services/supplies	1,754,711	15,525	2,148,721	-	-	3,918,957
Total expenses before depreciation, amortization and interest expense	10,914,872	304,447	2,727,005	1,840,621	21,100	15,808,045
Depreciation and amortization	153,441	8,964	12,834	74,854	-	250,093
Interest expense	4,154	-	-	41,674	-	45,828
	\$ 11,072,467	\$ 313,411	\$ 2,739,839	\$ 1,957,149	\$ 21,100	\$ 16,103,966



COMMUNITY HEALTH CENTERS, INC.
Statements of Cash Flows

Years Ended December 31,

	2005	2004
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (5,765)	\$ 1,094,867
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Non-cash donation of building	(555,000)	-
Depreciation and amortization	233,735	250,093
Decrease (increase) in:		
Receivables	1,491,395	(1,707,766)
Supplies	1,727	433
Prepaid expenses	(1,796)	35,594
Increase (decrease) in:		
Checks written in excess of cash in bank	33,626	-
Accounts payable	(245,643)	295,312
Accrued liabilities	26,498	(65,470)
 Net cash provided by (used in) operating activities	 978,777	 (96,937)
 Cash flows from investing activities:		
Purchase of property and equipment	(34,690)	(59,987)
 Cash flows from financing activities:		
Net increase (decrease) in line-of-credit	495,000	(1,322,000)
Payments of capital lease obligations	(22,714)	(23,100)
 Net cash provided by (used in) financing activities	 472,286	 (1,345,100)
 Net change in cash and cash equivalents	 1,416,373	 (1,502,024)
Cash and cash equivalents at beginning of year	970,320	2,472,344
Cash and cash equivalents at end of year	\$ 2,386,693	\$ 970,320
 Shown on the Statements of Financial Position as:		
Cash	-	200,280
Cash and cash equivalents - designated	2,386,693	770,040
 Total cash and cash equivalents	 \$ 2,386,693	 \$ 970,320



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements

December 31, 2005 and 2004

**1. Summary of
Significant
Accounting
Policies**

Organization

Community Health Centers, Inc. ("CHC" or the "Organization") is a Utah not-for-profit corporation governed by a consumer-controlled volunteer board of Governors. The stated purpose is to provide quality patient-centered primary care services to individuals, regardless of their ability to pay.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

CHC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Concentration of Credit Risk

A large portion of CHC's service fees receivable are from patients who have difficulty paying for services rendered. The management of CHC establishes an allowance for possible losses which, when realized, have been within the range of management expectations.



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements
Continued

**1. Summary of
Significant
Accounting
Policies**
Continued

Concentration of Credit Risk - Continued

CHC maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. CHC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, CHC considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Service Fees Receivable

Service fees receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Patient accounts receivable are written off when deemed uncollectible. Recoveries of service fees receivable previously written off are recorded when received.

Property and Equipment

Purchased property and equipment is recorded at cost. Donated property and equipment is recorded at fair market value at the date of receipt. Depreciation and amortization are computed using the straight-line method over the estimated lives of the assets or lease terms.

Donated Property, Equipment and Supplies

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, CHC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CHC reclassifies temporarily restricted net assets to unrestricted net assets at that time.



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements
Continued

**1. Summary of
Significant
Accounting
Policies
*Continued***

Donated Property, Equipment and Supplies - Continued

Donations of supplies are recorded at estimated fair market value at the time of donation.

Donated Services

Donated services are recognized as contributions, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by CHC.

Revenue Recognition for Medical Services

Revenue is recognized at the time the medical services are provided.

Patient Revenue

Many of the patients receiving medical services from CHC are billed a sliding-scale fee based upon family size and income. The sliding scale adjustment is set by the CHC board using federal poverty guidelines. In addition, CHC receives fees from various third party programs for qualifying patients. Patient fees are applied in meeting the non-federal share of approved budgets.

Allocation of Expenses

CHC's policy is to allocate various indirect expenses of administrative overhead to program services based on patient encounters.

Income Tax Status

CHC is a qualified charitable organization under Section 501(c)(3) of the Internal Revenue Code and under the State of Utah tax regulations and, therefore, is not subject to federal or state income taxes.



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements
Continued

2. Receivables Receivables consist of the following at December 31:

	<u>2005</u>	<u>2004</u>
Service fees receivable	\$ 2,382,352	\$ 3,280,982
Grants and contract receivable	344,894	338,322
Medicaid-wrap around and final settlement receivable	-	1,576,740
	<u>2,727,246</u>	<u>5,196,044</u>
Less: allowance for doubtful accounts on service fees receivable	<u>(1,188,045)</u>	<u>(2,165,448)</u>
	<u>\$ 1,539,201</u>	<u>\$ 3,030,596</u>

3. Property and Equipment Property and equipment consist of the following at December 31:

	<u>2005</u>	<u>2004</u>
Office and medical equipment	\$ 1,928,052	\$ 1,893,361
Leasehold improvements	1,039,864	1,039,864
Buildings	465,365	-
Land	89,635	-
	<u>3,522,916</u>	<u>2,933,225</u>
Less: accumulated depreciation and amortization	<u>(2,524,027)</u>	<u>(2,290,291)</u>
	<u>\$ 998,889</u>	<u>\$ 642,934</u>



COMMUNITY HEALTH CENTERS, INC.**Notes to Financial Statements***Continued*

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- | | |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4. Line-of-Credit | The Organization has a line-of-credit agreement with a bank to borrow a maximum of \$700,000 at an interest rate equal to the prime rate. The line is secured by Organization's assets and has a maturity date of October 5, 2006. The outstanding balance on the line-of-credit as of December 31, 2005 was \$495,000. |
| 5. Capital Lease Obligation | <p>The cost basis of equipment held under capital lease included in property and equipment as of December 31, 2004 was \$69,000, with accumulated amortization of approximately \$44,000.</p> <p>Amortization expense for the equipment under capital lease was approximately \$21,000 for the year ended December 31, 2004.</p> |
| 6. Designation of Unrestricted Net Assets | CHC's Board of Governors has designated a portion of unrestricted net assets, and an equal amount of cash as of December 31, 2005 and 2004, to be used as a reserve for future activities and to build a reserve of ninety days of operating working capital. As of December 31, 2005 and 2004, the designated net assets are less than the desired ninety days of operating working capital by approximately \$669,000 and \$2,264,000, respectively. |
| 7. In-Kind Services and Support | The time contributed by volunteer medical personnel, rent contributed for facilities, donated pharmaceuticals, and donated vaccines are recognized as part of contributions on the accompanying statement of activities. |
-



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements
Continued

**7. In-Kind
Services
and Support**
Continued

The following table shows the in-kind contributions received for the years ended December 31:

	<u>2005</u>	<u>2004</u>
Donated pharmaceuticals	\$ 1,697,824	\$ 1,295,224
Donated rent	60,000	60,000
Donated services	2,864,927	2,161,276
Donated vaccines for children	474,798	386,592
Donated supplies	52	15,865
	<u>\$ 5,097,601</u>	<u>\$ 3,918,957</u>

**8. Medicaid /
Medicare
Cost
Settlements**

During the years ended December 31, 2005 and 2004, CHC recognized revenue of \$215,046 and \$870,674, respectively, from Medicaid cost settlements from 1999 through 2004. In addition, CHC recognized revenue for Medicare cost settlements of \$3,425 and \$46,688 for 2005 and 2004, respectively. This revenue has been included in the other revenue/expense section of the statement of activities.

**9. Significant
Funding
Source**

During the years ended December 31, 2005 and 2004, approximately 20% in each year of CHC's operating revenues were from one funding source. A second source provided approximately 8% of CHC's operating revenues in each year. Future funds available from these funding sources are subject to potential reductions due to changes in governmental budget allocations and other factors.

**10. Retirement
Plan**

CHC has a defined contribution retirement plan which covers employees meeting the Plan's eligibility requirements. For the years ended December 31, 2005 and 2004, CHC contributed approximately \$523,000 and \$482,000 to the Plan, respectively.



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements
Continued

**11. Operating
Leases**

CHC leases medical clinics and certain equipment under various operating leases. Future minimum rental payments under noncancelable operating leases as of December 31, 2005 are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 212,112
2007	193,172
2008	181,961
2009	180,876
2010	180,876
Thereafter	150,730
	<u>\$ 1,099,727</u>

Rent expense related to these noncancellable operating leases was approximately \$209,000 and \$206,000 for the years ended December 31, 2005 and 2004, respectively.

**12. Commitments
and
Contingencies**

Government Contracts

CHC has contracts with governmental agencies to provide health care services. The terms of certain contracts may require adjustments to be made to revenues received based on events, which are not currently determinable. The amount of these adjustments is also not currently determinable. However, these adjustments may have a material effect on the financial statements in the period in which they are recognized.

Litigation

CHC has been named in lawsuits and/or claims filed against it. The amount, if any, to be paid by CHC in connection with these claims is not estimable and the likelihood of an unfavorable outcome is not currently determinable. Management believes damages resulting from these claims will not have a material adverse effect on CHC's financial position.



COMMUNITY HEALTH CENTERS, INC.
Notes to Financial Statements
Continued

**13. Supplemental
Disclosure of
Cash Flow
Information**

Actual amounts paid for interest and income taxes for the years ended December 31, are as follows:

	<u>2005</u>	<u>2004</u>
Interest paid	\$ 1,290	\$ 45,828
Income taxes paid	\$ -	\$ -

During the year ended December 31, 2005, CHC received a donation of land and a building. The organization recorded the donation at its fair market value of \$555,000 at the time of donation and as unrestricted revenue at the same amount.



COMMUNITY HEALTH CENTERS, INC.
Schedule of Expenditures of Federal Awards

Year Ended December 31, 2005

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services:		
Community Health Centers	93.224*	\$ 3,270,327
Health Care and Other Facilities	93.887	124,522
Passed through the State of Utah Department of Health:		
Prenatal Care Services	93.994	25,000
Cooperative Agreements for State-based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	23,024
Passed through the University of Utah:		
Grants for Graduate Training in Family Medicine (Family Medicine Residency)	93.379	86,890
Total U.S. Department of Health and Human Services		<u>3,529,763</u>
U.S. Department of Housing and Urban Development:		
Passed through Salt Lake City:		
Community Development Block Grant	14.218	54,319
Passed through Salt Lake County:		
Community Development Block Grant	14.218	9,554
Total U.S. Department of Housing and Urban Development		<u>63,873</u>
Total federal expenditures		<u>\$ 3,593,636</u>

* Denotes a major program

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Health Centers, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - In-kind Federal Assistance

During the year ended December 31, 2005, CHC received \$474,798 in donated vaccines through the Utah Department of Health in connection with the VFC program, Federal CFDA Number *93.268 Immunization Grants. This program was tested as a major program in accordance with OMB Circular A-133.



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Governors of
Community Health Centers, Inc.

We have audited the financial statements of Community Health Centers, Inc. as of and for the year ended December 31, 2005, and have issued our report thereon dated June 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Community Health Centers, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Community Health Centers, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting, would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Governors, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by any one other than these specified parties.

Tanner LC

Salt Lake City, Utah
June 5, 2006



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Governors of
Community Health Centers, Inc.

Compliance

We have audited the compliance of Community Health Centers, Inc. with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal programs for the year ended December 31, 2005. Community Health Centers, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of Community Health Centers, Inc.'s management. Our responsibility is to express an opinion on Community Health Centers, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Health Centers, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Community Health Centers, Inc.'s compliance with those requirements.

Our audit procedures disclosed a finding which is described in item 05-1 in the accompanying schedule of findings and questioned costs.

In our opinion, Community Health Centers, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of Community Health Centers, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Community Health Centers, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Community Health Centers, Inc.'s ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition (item 05-1) referred to above is not a material weakness.

This report is intended solely for the information and use of the Board of Governors, management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Tanner LC

Salt Lake City, Utah
June 5, 2006



COMMUNITY HEALTH CENTERS, INC.
Schedule of Findings and Questioned Costs

Year Ended December 31, 2005

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ yes ☐ none reported

Type of auditor's report issued on compliance for major programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☒ yes ☐ no

Identification of major programs:

CFDA Number Name of Federal Program

93.224 Community Health Centers
93.268 Immunization Grants – Vaccinations For Children Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no



COMMUNITY HEALTH CENTERS, INC.
Schedule of Findings and Questioned Costs
Continued

Section II - Financial Statement Findings

No findings were noted related to our audit of the basic financial statements.

Section III - Federal Award Findings and Questioned Costs

05-1 Controls Over the Vaccinations For Children Program

Criteria or specific requirement

Effective control and accountability must be maintained for all vaccine.

Condition

It was noted that Community Health Centers, Inc. was not able to fully account for all vaccine received under the Immunization Grants - Vaccinations For Children Program (VFC).

Effect

The unaccounted for difference between the physical inventory usage and the Medical Manager practice management system was \$21,543 or 4.5% of the in-kind federal assistance received. However, per representation of Organization management, Community Health Centers, Inc. did provide \$19,140 of flu vaccine to VFC eligible children during 2005 that was not reimbursed by vaccinations from the VFC program.

Cause

The cause of the difference appears to be partially from spoilage and partially from miscoding of information in the Medical Manager system.

Recommendation

We recognize that the Organization made improvements in monitoring and accounting for vaccine usage during the current year. However, we recommend that management continue to refine the method used to monitor and account for the usage of Vaccinations for Children vaccines, and compare the actual usage to information recorded in the Medical Manager practice management system on a daily basis to ensure that the vaccines are being properly administered.

Community Health Centers, Inc.'s Response

CHC agrees there was a 4.5% variance totaling \$21,543 between the vaccine received by CHC from the UDOH (\$478,471) and the vaccine "used" by the CHC practice management system during calendar year 2005.



COMMUNITY HEALTH CENTERS, INC.
Schedule of Findings and Questioned Costs
Continued

It should also be noted that for calendar year 2005, CHC provided \$19,140 of flu vaccine to VFC eligible children without receiving reimbursement or vaccine replenishment. If the VFC variance (\$21,543) were offset by the CHC flu vaccine provided to VFC eligible children (\$19,140), the variance was \$2,403 or 0.50%.

CHC has implemented the following VFC Performance Improvement Program:

- Clinic Directors perform monthly, or more frequent, inventories of VFC and AOV (Any Other Vaccinations) supplies;
- Clinic Directors match and reconcile VFC vaccine and encounters to the physical inventory on five consecutive days per month;
- Clinic Directors use reconciliation effort to identify areas where training can improve desired outcomes on a monthly basis and/or as recommended by the CQI committee;
- CHC works with individuals to resolve performance issues that are problematic using the performance improvement system;
- On a daily basis, CHC ensures that wasted vaccines are recorded on the waste sheet and incorporates these findings on the monthly vaccine reconciliation report;
- CHC works on an ongoing basis with the practice management vendor to improve data validation and accuracy with a goal of resolving all systemic variations no later than December, 2006;
- CHC Billing Supervisor audits the accuracy of the practice management data entry and reports findings to the CQI committee on the monthly basis;
- CHC uses the VFC Reconciliation Summary as a reporting and summarizing tool and is reviewed monthly in the Clinic Director's meeting, and;
- The CQI Committee reviews the VFC Reconciliation Summary monthly and provides appropriate assessment and feedback of processes.



COMMUNITY HEALTH CENTERS, INC.
Schedule of Prior Audit Findings

Year Ended December 31, 2005

04-1 Controls Over the VFC Program

Observation:

As a result of the audit procedures performed in relation to the Immunization Grants – VFC Program (CFDA # 93.268 in the prior year), including reading reports from government oversight agencies pertaining to this program, we noted certain internal control areas for the VFC Program where further enhancements of internal control are suggested. The primary internal control areas identified for the consideration of management include the processing of encounter forms, and the tracking and reporting of the physical inventory of vaccines.

Recommendation:

We recommend that Community Health Centers, Inc. management continue in its efforts to enhance internal control in the above noted areas pertaining to the VFC Program.

Status

Although CHC has taken several steps to improve controls over the inventory tracking of vaccinations associated with the VFC program, there continues to be differences between physical inventory and CHC's Medical Manager practice management system. See repeat comment 05-1 on page 22.